



Water wheels produced mechanical and electrical energy for early California. The Bale Grist Mill's 36-foot overshot waterwheel, built in the Napa Valley in 1846.

HIGHLIGHTS

Revenue

Board revenues highest in state history

Board of Equalization revenues totaled a record \$41.25 billion in 2000-01, a 4.5 percent increase from 1999-00 revenues of \$39.46 billion. Revenues grew at a more moderate pace than in 1999-00. That year, total revenues were 11.1 percent higher than in 1998-99.

Sales and use tax revenue growth benefits the state and localities

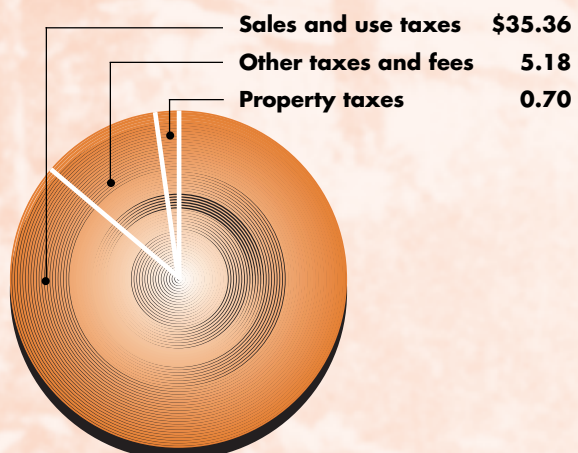
The largest component of Board revenue, sales and use taxes, increased 5.2 percent to total \$35.4 billion in 2000-01. Included in this total is \$5.70 billion in local sales and use tax collected for California cities and counties and \$3.04 billion collected on behalf of special taxing districts.

Revenues from fuel taxes and the alcoholic beverage tax increase; tobacco tax revenues decline

Fuel tax revenues totaled \$3.19 billion in 2000-01, an increase of 3.7 percent from 1999-00. Revenues

2000-01 Board Revenues

Billions of Dollars



from the alcoholic beverage tax reached \$288.45 million, an increase of 2.2 percent. Cigarette and tobacco tax revenues dropped 5.2 percent to \$1.16 billion.

Tax Program, District, and Rate Changes

State sales tax rate drops by one-quarter percent on January 1, 2001

On January 1, 2001, the state sales tax rate dropped by 0.25 percent, to 5.75 percent. The decrease was required by 1991 legislation that mandated the rate reduction when state budget reserves are anticipated to exceed four percent of general fund revenues for two consecutive years. California ended the 1999-00 fiscal year with a reserve of 10.1 percent of general fund revenues and expected to end 2000-01 with a reserve of more than 4 percent of general fund revenues. However, the declining economy dramatically reduced anticipated state tax revenues in 2001, and the state sales tax rate returned to its previous level of 6 percent on January 1, 2002.

New district taxes go into effect in Mariposa County and the cities of Woodland and Avalon

Three new transactions and use tax districts began collecting tax this fiscal year. The Mariposa County Healthcare Authority district tax and the City of Woodland General Revenue Transactions and Use Tax went into effect on July 1, 2000. The Avalon Municipal Hospital and Clinic Transactions and Use Tax went into effect on October 1, 2000. All three new districts have tax rates of 0.50 percent.

California tire fee increases January 1, 2001

The California tire fee, formerly \$0.25 per tire, increased to \$1.00 per tire as of January 1, 2001, due to the passage of Senate Bill 876 (Stats. 2000,



Animals provided a significant portion of the state's power into the 1930s.

ch. 838—see also the “Legislation” section of the “Special Taxes” chapter, [page 44](#)). Retail sellers will now be able to retain 3 percent of the fee (3 cents) as reimbursement for their fee collection costs.

Natural gas surcharge goes into effect January 1, 2001

A surcharge imposed on all natural gas consumed in California went into effect on January 1, 2001. Consumers of natural gas who purchase their gas from public utility gas corporations or interstate pipelines must pay the surcharge, which funds low-income customer assistance programs, cost-effective energy efficiency and conservation programs, and public-interest research and development. The surcharge does not apply to gas used to generate power for sale, sold or purchased

for resale to end users, sold or used for enhanced oil recovery, used in cogeneration projects to generate energy, or produced in California and transported on a proprietary pipeline.

Significant Legislation

For more information, see the “Legislation” sections of the tax program chapters of this report.

Property Taxes

Mandatory audit threshold increased

Senate Bill 1844 (Stats. 2000, ch. 613) requires a county assessor to audit a business once every four years if the property holdings of the business have a value of at least \$400,000. This is an increase from the previous value threshold of \$300,000.

Income limits increased for low-income disabled veterans’ exemption

Senate Bill 1362 (Stats. 2000, ch. 1085) raises the disabled veterans’ exemption income threshold from \$24,000 to \$40,000 and provides automatic adjustments for inflation.

Limitations restored for escape assessments for back taxes

Senate Bill 2170 (Stats. 2000, ch. 647) restores a limitation on the number of prior years for which escape assessments may be levied when changes of ownership are not recorded or not reported to the assessor. In most instances, the limit is eight years, however in cases of fraud or for certain legal entities that failed to file a change in ownership statement, there is no statute of limitations.

Sales and Use Taxes

Confidentiality provisions extended to tax practitioners

Assembly Bill 1016 (Stats. 2000, ch. 438) provides that with respect to tax advice, certain protections

of confidentiality that apply to a communication between a client and an attorney will also apply to a communication between a taxpayer and any federally authorized tax practitioner.

Board prohibited from disclosing individual permit-holder information

Assembly Bill 1965 (Stats. 2000, ch. 962) generally prohibits the public release of names and addresses of sole proprietors and husband-wife co-owners who hold Board-issued licenses or permits or who are otherwise registered with the Board.

Board-sponsored bill delegates settlement authority

Assembly Bill 2894 (Stats. 2000, Ch. 923) delegates to the Board’s executive director and chief counsel the authority for reviewing sales and use tax settlements involving a reduction of tax or penalties of \$5,000 or less. Formerly the law required review by the state attorney general. (See related highlights under “Operations,” [page 15](#).)

Board sponsors bill to enhance California’s Taxpayers’ Bill of Rights

Assembly Bill 2898 (Stats. 2000, ch. 1052) makes several changes to California’s Taxpayers’ Bill of Rights to benefit those who pay property taxes, sales and use taxes, and special taxes and fees. For details, see [page 22](#) of the “Property Taxes” chapter, [page 33](#) of the “Sales and Use Taxes” chapter, and [page 44](#) of the “Special Taxes” chapter.

Special Taxes

Gasoline tax will be imposed at terminal rack level

Assembly Bill 2114 (Stats. 2000, ch. 1053), operative January 1, 2002, replaces the Motor Vehicle Fuel License Tax Law with the new Motor Vehicle Fuel Tax Law. The new law imposes the tax on

gasoline when it is removed from the refinery or terminal rack or imported into the state, consistent with the tax on diesel fuel. Formerly the tax was imposed when the gasoline was first distributed.

Significant Regulatory Changes

For more information, see the "Regulations" sections of the tax program chapters of this report.

Revision clarifies taxability of series of sales

Regulation 1595, *Occasional Sales—Sales of a Business*, was amended to clarify how tax applies when a person who has not been required to hold a seller's permit makes a series of sales that triggers the seller's permit requirement. The first two sales are now considered "occasional sales" and are not taxable. The third sale in the series, and any subsequent sales in the next 12 months, are taxable unless otherwise exempt.

Regulatory change establishes alternative method for use tax reporting

Regulation 1705, *Relief from Liability*, was amended to allow certain purchasers to propose a use tax reporting methodology in writing and to allow the Board to approve the use of the proposed method subject to certain conditions. The Board's approval of the proposed method will be considered "written tax advice," which provides the taxpayer with relief from tax, penalty, and interest if following the approved method results in underpayment of tax.

New regulations improve access to public records

New regulations (18 Cal. Code Regs., secs. 8000 through 8016, effective 11/15/00) identify, describe, and facilitate maximum public access to the Board's public records pertaining to its tax and fee programs.

Customer and Taxpayer Service

New program introduces real-time e-filing

The Board introduced an electronic filing option this fiscal year for certain sales and use tax filers. The e-Filing Program is the first electronic tax filing effort in the country to use an XML data interchange format that allows real-time Internet electronic filing directly integrated into the existing agency database.

Board opens satellite office in Kearny Mesa

This year the Board opened a sales and use tax satellite office in the city of Kearny Mesa. Staff in this office provide information and assistance to taxpayers.

New release of lien program pays recording fees

The Board has begun to mail releases of liens directly to the taxpayer and to county recorders where a lien was originally filed, and to pay the required recording fee. In the past, taxpayers were required to record the release with the county and pay the fee.

EFT payments begin for local jurisdictions

Beginning in April 2001, cities, counties, and special districts were given the option to receive their monthly sales and use tax payments by electronic funds transfer (EFT). The EFT option, implemented in conjunction with the State Controller's Office, expedites transfer of tax revenue to local governments.

Joint agency efforts recognized for excellence

In spring 2001, two of the Board's joint efforts with the Internal Revenue Service, Franchise Tax Board, and Employment Development Department



Gas made from fats, oils, coal, and petroleum lighted city streets in the mid-to-late 1800s. View of the Palace Hotel, San Francisco.

received awards for excellence from the State Information Officers Council. The SIOC Gold Award for Internet User Friendliness and the Grand Prize Award for Internet sites went to the California Tax Information Center Web site (www.taxes.ca.gov). A SIOC Silver Award went to creative, lighthearted radio ads targeted at small businesses, which promoted joint agency efforts and continuing tax education.

Operations

Legislation helps Board speed resolution of tax and fee settlements

The Settlement Program reduced the time to complete processing of most settlements to six months. This expedited tax and fee dispute resolu-

tion was facilitated by Assembly Bill 2894, which streamlined processing of small sales and use tax settlements (see [page 33](#)).

Review finds Board most Internet-ready state agency

In an assessment of Internet readiness conducted by PricewaterhouseCoopers for the Department of General Services' Enterprise Business Office, the Board received the highest rating of state agencies that provide critical services to business. The assessment recognized the Board's real-time e-filing process and the concerted efforts being made throughout the agency to integrate the Internet as a "channel for accessing" Board services. (See "New program introduces real-time e-filing," previous page).